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DRAFT REPORT OF THE STANDING COMMITTEE ON COMMODITIES ON ITS SECOND SESSION

Held at the Palais des Nations, Geneva,
from 31 January to 4 February 1994

Rapporteur: Mr. V. Skliarov (Russian Federation)

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 11 February 1994 at the latest to:

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INTRODUCTION

1. The Standing Committee on Commodities held its second session at the Palais des Nations, Geneva, from 31 January to 4 February 1994. In the course of the session, the Standing Committee held ..... plenary meetings. */

Opening statements

2. The **Secretary-General of UNCTAD** said that the present session was taking place at a time when the difficulties faced by commodities exporters in general, and more specially by developing countries heavily dependent on commodity export earnings, continued unabated. In the 1990s export volumes were not expanding significantly and thus developing countries continued to experience large shortfalls in their commodity export earnings, in a context in which only very limited success had been achieved in efforts at economic diversification. In many commodities, a basic problem underlying depressed prices was the existence of structural over-supply leading to important stock overhangs. He noted that for a wide range of commodities exported by developing countries, the expansion in supply had also reflected the pressure to increase exports resulting from the introduction of structural adjustment programmes and the need to service large foreign debts. Moreover, for several agricultural commodities high levels of producers' support in developed countries had been a main factor behind the excess of supplies. While the successful conclusion of the Uruguay Round represented an important step towards addressing some of these problems, they had not been fully resolved. In addition the recession in the main consuming countries continued to have a dampening effect on commodity markets.

3. This context gave special significance to the mandated role of the Standing Committee on Commodities to promote sound, compatible and consistent policies which inter alia took into account market trends at the national and international levels in the commodity field. The mandate should be viewed in the light of the decision by the Cartagena Conference to request the Standing Committee on Commodities, through the Trade and Development Board, to undertake a comprehensive analysis regarding commodity policy and explore new market-oriented approaches to commodity policies. He further stressed that the Conference expected this Committee to provide an input which would assist the Board in taking a decision on the delicate

question of inviting the General Assembly of the United Nations to convene a world conference on

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*/ For the terms of reference of the Standing Committee on Commodities, see Trade and Development Board decision 398 (XXXVIII), annex, section B.

commodities under UNCTAD auspices. It was on the basis of such an input that he would intend to undertake the separate consultations envisaged by the Conference on this question.

4. He recalled the special emphasis placed by Governments in Cartagena on two new and emerging sets of issues in the field of commodity problems and policies. The first had to do with the use of financial instruments to manage price and other commodity related risks. Pursuant to the Cartagena Commitment, he had convened a group of experts whose full report was being provided to the Standing Committee. The Group had strongly endorsed the need to encourage governments and the private sector in developing countries and other countries to make use of futures exchanges and financial instruments for the management of commodity risks, and had also identified some potential problems. The second area of emphasis had to do with sustainable development and the environmental aspects of commodity production and trade. He noted that work in the secretariat had shown that there was no incompatibility between concern with the protection of the environment in commodity production and the achievement of efficiency, lower costs and sustainable development generally. However, this required policies to steer the markets into taking account of the externalities involved, as well as international support to national efforts in this direction. He considered that the Committee's guidance on further work in both areas would be invaluable.

5. He further stressed that emphasis on the new and emerging issues should not detract from traditional problems of low and unstable commodity prices, commodity dependence and insufficient diversification, and commodity earnings shortfalls. Producer and consumer co-operation was an important means to the solution of problems in the commodity area. In this respect and in the last two years, successful negotiations had taken place in UNCTAD of new international agreements on sugar, cocoa and, only last week, tropical timber; of the extension and adoption of a protocol amending the International Agreement on Olive Oil and Table Olives; and of the agreement establishing the International Copper Study Group.

Preparations were under way to convene a conference to renegotiate the International Natural Rubber Agreement. He noted the growing interest in international co-operation for supply rationalization, particularly in situations of structural oversupply, a notion which was gaining acceptance.

6. The **Deputy to the Secretary-General of UNCTAD** said that the present session could in effect serve as the first stage in carrying out the mandate in the decision on a world commodity conference at taken UNCTAD VIII. The agenda of the session also responded to the mandate given to the UNCTAD secretariat in paragraph 210 of the Cartagena Commitment to undertake a thorough review of the situation and prospects of the international commodity economy and policy with a view to defining a possible course of action for submission to the Board.

7. Referring to agenda item 3, he said that the Standing Committee might wish to consider endorsing the view, argued in the secretariat report, that commodity markets might be subject to significant distortions that prevented their functioning as optimal allocators of resources. Such a situation called for appropriate action on the part of the international community. The Committee might also wish to consider endorsing the framework for analysis of the factors affecting commodity markets and to recommend further work at a disaggregated commodity level on this issue.

8. Turning to agenda item 4, he recalled that the Secretary-General, pursuant to paragraph 213 of the Cartagena Commitment, had convened a group of governmental and non-governmental experts. The policy questions the Committee might wish to consider in this respect and the directions for future work, were: (1) the extent to which developing countries should regard use of financial instruments and futures markets as a main means to manage price risks and earnings fluctuations; and (2) the extent to which the trading of futures contracts on commodity exchanges should be used as a price formation mechanism for commodities. A related policy issue referred to the kind of international or national actions that could help improve the working of futures markets and financial instruments and increase, when appropriate, the participation of developing and other countries in them.

9. Turning to agenda item 5, he said that the objective of the main document was informational, both in terms of the nature of shortfalls and their impact on producing countries, and of the performance of existing instruments for addressing the needs of countries. The Committee might wish to note these developments and decide what kind of further work was needed in this area. As regards agenda item

6, he noted that the Committee might wish to consider endorsing the framework for the analysis of diversification experiences and the recommendation for further work both to draw policy lessons and to support the diversification efforts of developing countries through technical co-operation. In this context he also mentioned that, pursuant to Economic and Social Council resolution 1993/79 on Tobacco or Health, the UNCTAD secretariat would undertake a study on the role of tobacco production and trade, including possibilities of crop substitution, in tobacco-producing countries.

10. Referring to agenda item 7, he said that the Committee might wish to consider sequencing the topics identified in its work programme under item E, and endorsing the lines of work presented in these documents, especially: (a) encouraging interaction between sound macroeconomic policy and natural resources management in the context of sustainable development, with special attention to the mineral exporting developing countries, and identifying approaches including technical co-operation activities. UNCTAD was co-sponsoring, together with the World Bank, UNEP and the International Council on Metals and the Environment, an international conference on development, environment and mining which would take place in Washington, D.C. in June 1994; (b) stimulating interest and promoting financial, technical and commercial participation of the international community in improving natural resources management and environmental protection in the context of commodity production and processing in developing countries; (c) furthering the examination of the internalization of environmental externalities, and improving the competitiveness of natural products with environmental advantages; and identifying areas in which technical co-operation, with extra-budgetary financing, could be pursued. With regard to agenda item 8, he suggested that the Committee might wish to consider endorsing the areas in which technical co-operation should be strengthened and exchange views on ways in which the activities that might emerge could be supported. Guidance would be appreciated concerning the secretariat's work on a micro-computer based commodity analysis and information system (MICAS). Moreover, UNCTAD had been designated focal point for a system-wide multisectoral effort on Tobacco or Health, which would involve technical co-operation activities as well as a research and policy analysis, and would require substantial extra-budgetary support.

11. Finally, he said that the Committee, in taking note of reports from the Intergovernmental Group of Experts on Iron Ore, the Intergovernmental Group of Experts on Tungsten, and the Second Ad Hoc Review Meeting on Bauxite, might wish to make some general recommendations regarding future orientation for the work of

these Groups. One aspect the Committee might wish to stress was the need to ensure that more industry advisers and experts from competent technical Ministries in capitals participate in the work of these groups.

12. The spokesman for the **Latin American and Caribbean Group** (Argentina) said, referring to item 3, that market distortions existed and exerted a negative impact on developing countries. As a consequence, factors at the source of such distortions should be determined and the political will to remove them generated. Turning to the conclusion of the Uruguay Round, he recalled, that the consolidation of multilateral disciplines in commodities was a starting point but its implementation was crucially needed for accelerating the trend towards removing market distortions. He noted that interventions in agricultural markets by OECD countries in 1992 had attained US$ 354 billion. UNCTAD had a very important role to play in the process of developing multilateral disciplines in the area of commodities, in particular in those areas not covered by the Uruguay Round.

13. Referring to item 7 of the agenda, he said that his Group wished to refer to two aspects agreed at Cartagena, namely to the need for mutual support between development, commodities and environmental issues, and to the need for technical and financial support to developing countries in this area. An efficient use of mineral revenues was required together with the dismantling of all barriers to trade in environmentally preferred goods and the progressive reduction of subsidies to agro-chemical substances degrading the environment. The deterioration of conditions in the international market was also detrimental from the point of view of the sustainable use of natural resources. In the view of his Group, it was precisely interventionist policies and subsidizing mechanisms that led in many cases to over-exploitation and ecological degradation.

14. As regards agenda item 4, he noted the importance of a joint study by UNCTAD and the World Bank on the structure and participation of users in commodity exchanges. This was particularly welcome from the point of view of collaboration between the United Nations system and Bretton Woods institutions.

15. In the area of technical cooperation, he stressed the need to strengthen not only its budgetary aspects, which required voluntary contributions that were currently affected by important restrictions, but also to approach in a more systematic way the requirements of Latin American and Caribbean countries and of developing countries in general in this area. He welcomed the idea of an inventory

on technical co-operation needs, which could constitute a basis for refocusing UNCTAD's work.

16. With regard to the medium-term action of UNCTAD in the field of commodities, it was necessary to focus progressively its work on the elaboration of a set of "guidelines" which would translate the general principles agreed at Cartagena into concrete recommendations. The documents before the Committee outlined already those principles which should, however, be better identified and addressed.

17. Finally, he referred to the importance his Group attached to dealing with the issue of a world conference on commodities. He recalled the existence of a mandate requiring member States of UNCTAD to deal with this proposal and considered that two premises were required: (1) the achievement of effective results of the Secretary-General's informal consultations on this issue; and (2) to take appropriate decisions afterwards, in particular when the work programme of the Standing Committee was completed - i.e. when the themes that constitute the subject of the world conference would have matured.

18. The spokesman for the **African Group** (Kenya) stated that the situation in Africa had deteriorated considerably over the past few years. Against the background of the continent's weak economic structures, the fall in export earnings, which had been caused by the combination of Africa's continued high commodity dependence and the price decline on world commodity markets, had had a very negative effect on domestic economic stability in these countries. The critical economic situation had caught the attention of the international community as reflected by the unanimous adoption of the United Nations New Agenda for the Development of Africa in the 1990s. The need to diversify, with a view to modernizing production as well as distribution and marketing systems in Africa, enhancing productivity, and stabilizing and increasing Africa's export earnings, was crucial in the strategy for economic recovery and development of Africa and had been recognized as one of the five overall priorities reflected in the United Nations medium-term plan for the period 1992-1997. The work of the Committee should emphasize more the specific problems facing Africa, in line with the decision of the Board at the first part of its thirty-ninth session. He also urged Africa's development partners to support any international effort to arrest Africa's deteriorating situation as the increased interdependence and globalization required a spirit of dialogue, cooperation and mutual support to resolve the problems in the commodity field.

19. He noted that early studies on the impact of the results of the Uruguay Round on Sub-Saharan Africa pointed to a loss of US$ 2.6 billion for this already impoverished region. The Committee should therefore undertake an analysis of the impact of this Round on the production, processing and marketing of Africa's commodities.

20. Referring to the report TD/B/CN.1/13, he shared the view that further studies on commodity policy should include both commodity and country dimensions, as well as be selective and disaggregated. A comprehensive and universal perspective needed to be adopted in designing international commodity policy, and mechanisms for institutionalizing these approaches should be worked out. In this context, he noted with satisfaction that consensus for holding a World Commodity Conference was building up.

21. He felt that every effort should be made to improve the functioning of risk management instruments in the commodity field as their use would foster countries' attempts to improve economic management planning. For Africa, however, these instruments should be seen in the context of attempts to arrest the decline in commodity prices. He hoped that the Committee would fully endorse the conclusion and recommendations of the seminar on "Africa's Debt Situation and the Impact of Declining Commodity Prices on Africa's Capacity to Grow and Service its External Debt", held in Addis Ababa in November 1993. The policy proposals made by UNCTAD's Group of Experts in this area also deserved endorsement.

22. Regarding compensatory finance, he noted that the funding and management of existing mechanisms were grossly inadequate for resolving the medium and long-term development problems. He suggested that existing mechanisms be strengthened, while minimizing the use of conditionality, and alternative solutions be explored. In the field of diversification, he welcomed the findings of the secretariat's report and requested the Committee to consider the need for, and feasibility of, the establishment of a diversification fund for Africa's commodities in line with the relevant resolution of the United Nations. He called for further study and analysis of sustainable development, stressing that a consensus on fair burden-sharing in the cost of environmental protection needed to be built. New conditionality should not be imposed in this area.

23. Finally, he regretted that, at a time when more funds were required for technical assistance to Africa, fewer such funds were being made available. He said

that this trend needed to be reversed urgently and urged the Committee to address this issue specifically.

24. The representative of **Bangladesh**, speaking on behalf of the **Least Developed Countries**, reminded the Committee of the serious effects of commodity problems on least developed countries. Stressing the importance of diversification in the commodity sector for the LDCs, he pointed out the need not only for macro-economic adjustments but also for specific and supportive interventions for successful diversification. He also mentioned the importance of coordination between the Government and the private sector: both should strive to optimize each other's contribution in enhancing the pace of export development. He referred also to factors which could undermine diversification programmes, such as size of the domestic market, structural weaknesses, natural disasters and uncertain external environment.

25. Noting that the efforts of the LDCs alone were not enough to bring about successful diversification, he called upon the international community for assistance in this area. There was a need for increased flexibility in GSP schemes and rules of origin for these countries and for the strengthening of compensatory financing schemes and minimization of conditionality. Referring to foreign direct investment, he said that major home countries of FDI should devise and put in place measures to promote FDI from these countries to LDCs in order to enhance economic and commodity diversification. He also recalled the potential role the Common Fund could play in assisting commodity development and the possibility of granting finance from the Second Account to benefit LDCs in particular. Finally, in the interest of achieving concrete results, UNCTAD should concentrate on a few priority areas rather than discussing all the issues at the same time.

26. The representative of **Greece**, speaking on behalf of the **European Union and its member States**, said that there was a need for improved transparency in commodity markets in part to avoid or offset distortion in investment. Referring to causes affecting the balance of supply and demand, he drew attention to the entry of new producers in the market, which was aggravating over-supply; the low price elasticity of demand for many commodities, at least in high income countries; and the effect of technology in the demand for raw materials. While technological change had enhanced cultivation techniques and improved productivity, it frequently had a downside effect on the environment. It was interesting that the report by the secretariat draw a distinction between structural "determinants" and

other factors of a more empirical character which could lead to commodity market failure. The European Union believed that debate, especially on item 3, should not be distracted from a constructive examination of commodity market operations, particularly as they affected LDC primary producers. Moreover, the impact of the CAP reform and of the trade liberalization following implementation of the Uruguay Round outcome were not adequately reflected in the reports submitted to the Committee.

27. An issue of major importance to the European Union was that of diversification. The European Union recognized that the process of diversification was critically important and often intractable. Indeed the Fourth Lomé Convention identified horizontal and vertical diversification as a major objective in the commodities field, and similar opportunities were available in co-operation agreements between the European Union and developing countries in other regions. He stressed the role of Governments in this area: Governments that depended heavily on commodities were obliged to analyse the prospects for alternative commodities as part of their macro-economic policies. He realized that many countries, although willing to reduce their dependency on one or two commodities, were constrained by a narrow resource base, by climatic and topographical conditions, or by internal structural factors. He welcomed UNCTAD's work in this important area and hoped that it would be continued. He also supported UNCTAD's case-by-case assessment approach as well as its accent on a lateral view of inter-commodity relationships.

28. Referring to other factors which had an impact on the operation of commodity markets, he highlighted those of market concentration and environmental externalities. Perhaps the most interesting feature which UNCTAD had pointed out was the disengagement of some producer governments from the marketing chain as a result of liberalization policies. The effects of this withdrawal would have merited more detailed analysis, including the influence of multinational trading houses in internal marketing in producer countries. As for the costs and benefits of environment-related measures, this was a complex subject requiring further analysis and he was pleased that the Board would study the extent to which environmental measures were being reflected in the costs of production and, by inference, in world market prices. Commenting on the policy implications in section V, paragraph 86, of the secretariat report he said that it was open to question whether the adjustment of structural elements in supply and demand should be judged as being merely complementary to actions designed to reduce distortions in the functioning of commodity markets. He supported UNCTAD's view that the

country and commodity dimensions required further examination and considered that the commodity dimension at least might be covered by the various kinds of international commodity organizations, study groups and intergovernmental groups that existed for the great majority of non-fuel primary products.

29. With regard to the policy implications and issues for future work, he said that the European Union supported the proposition contained in the UNCTAD report that commodity policies for the 1990s should reflect the need for selectivity and disaggregation. He questioned, however, the utility of setting up "coordinating mechanisms" particularly if the objective was to search for compatibility and coherence of domestic and international policies affecting the commodity sector. Similarly, he doubted the usefulness of extensive research on "internationally agreed production policies" in view of the fact that the Cocoa Agreement negotiations had shown that such an objective was conceptually unacceptable and therefore unattainable. He added that in paragraph 97 of the report, the idea of finding mechanisms to promote jointly the consumption of commodities was not fully understood.

30. Finally, having in mind that there had been two successful years since Cartagena, and that commodities was one of the major areas where UNCTAD was active, he emphasized the need for a careful scrutiny of the items to be included in the provisional agenda for the third session of the Committee in the context of the streamlining of the work of UNCTAD.

31. The representative of the **United Republic of Tanzania** pointed out that the poor economic performance of highly commodity-dependent least developed African countries in the 1980s largely reflected the decline in export earnings for their major exports. He attributed this decline to the recession in the industrialized countries as a short-term phenomenon, and to contracting demand for commodities, in response to technological change, as a longer-term development. A commodity development strategy would need to address both these factors. Some LDCs, which had tried to diversify, had failed despite their best efforts as a result of the attempt of a number of developing countries to diversify into the same commodity simultaneously. This had led to over-supply and lower prices. The pressure to raise exports exerted on LDCs by their debt burden had exacerbated this situation. Measures to improve the commodity situation had hence to be accompanied by debt alleviation. He concluded that African LDCs should pursue diversification efforts with a view to improving quality and competitiveness, in particular for those products for which demand and remuneration were rising. A comprehensive programme

of financial and technical assistance could address shortages of skilled manpower and management capabilities, inadequate infrastructure and modern technology, which posed limitations in particular for vertical diversification. Commodity-importing developed countries should maintain their preferential treatment of exports from LDCs. He stressed the role of the Common Fund for Commodities as a catalyst for commodity development and in formulating an effective and sustainable commodity strategy for the 1990s.

32. He stated that private exporters and public marketing institutions in LDCs lacked experience as well as the services, skills and information necessary for understanding the price formation process associated with risk management instruments. Use of these instruments was further complicated by the fact that capital markets in these countries were very narrow and virtually inaccessible for small and medium-sized firms. He questioned the effectiveness of using these mechanisms without undertaking parallel actions aimed at correcting the tendency to oversupply. The extent to which LDCs could adapt their economies to allow for the use of these instruments was limited. He therefore urged UNCTAD to encourage and support international cooperation in this area with a view to removing the existing obstacles at the international level.

33. The representative of **Japan** said that his country attached great importance to resolving the problems of commodity production and trade, including the issue of ensuring the balance of demand and supply. The benefits sought after included enabling the activation and stabilization of trade in commodities, thus contributing to the development of heavily dependent commodity exporters among developing countries; ensuring the stable supply of commodities to consumer countries; and making possible sustainable development through the established trading system which had already taken into account environmental issues. However, it was clear that the least developed countries, which had weak structures, were not successfully diversifying their economies. Owing to the recent fall of commodity prices, they were now faced with a substantive decrease in their export earnings.

34. Turning to the issue of commodity agreements, he considered the present international framework, consisting mainly of the commodity agreements which were concluded on the basis of the Integrated Programme for Commodities (IPC) of UNCTAD in the 1970s, was not able to respond to the changes that had occurred since then. In this context, his country recognized the need for finding appropriate forms of international cooperation which suited the present situation. He considered that

the following issues should be fully taken into account for future international cooperation: (1) while based upon market mechanisms, stabilization of prices and supply of commodities, as well as the realization of sustained economic development in developing countries should be achieved through the framework of international agreements; (2) high priority should be given to assistance to the LDCs; and (3), effective and appropriate cooperation on a multilateral and bilateral basis should be established.

35. The spokesman for the **Asian Group** (Philippines) stressed the economic malaise which continued to beset most commodity-dependent developing countries and the need for a coherent global strategy for addressing the commodity problems. He cited the persistent and chronic depression of commodity prices and real export earnings as the direct causes for substantial cuts in consumption and investments and for the failure to sustain economic restructuring and reforms as well as the lack of export diversification. Recalling the amount of discussions and work that had been invested in trying to counter fluctuating commodity market prices, he warned against certain aspects of the approaches that had been undertaken.

36. Supplementary financing from international sources, for instance, should also deal with longer-term problems caused by weakened terms of trade and should, in determining access, eligibility and repayment terms, take into account the commodity export earning cycle of the commodity-dependent exporting countries under consideration. Commodity arrangements between producing and consuming countries were another approach to balance world commodity supply and demand at prices that were reasonably remunerative to producers and acceptably fair to consumers. This had failed to gain much needed support from some major countries which believed that it would result in distortions in commodity markets through the misallocation of resources. As to instruments such as futures markets that would allow risk and uncertainty to be handled separately from production and consumption, he pointed out that such an approach required adequate capital, skills, technology and management expertise, and that these resources were often lacking in most developing countries. Each of the above approaches could still have a role in a broad international strategy. It was crucial to find a coherent and durable strategy to meet the demands of the environment as well as those imposed by the pursuit of economic reforms.

37. Given the distortions in resource allocation caused by government intervention in production and international trade, such as price and income support and subsidies for agriculture in many developed countries and their

subsequent dampening effect on developing countries' trade performance, he questioned the possibility of developing countries' improving their trade performance if the scope for adjustment was severely constrained by trade-distorting regimes. He looked forward, therefore, to the realization of the commitments of the Uruguay Round. He believed that the phase-out or substantial reduction of unfair trade practices was an essential element of a global strategy to address commodity problems, and urged that the commodity market be viewed not only in terms of prices and volumes of commodity trade, but also in terms of how the commodity market could operate to stimulate or retard the development process or the growth of the world economy.

38. He further stressed that the debates should not prolong the hardship and economic distress for the majority of the world's population, and that it was vital to arrest without delay the enormous decline in real income and living standards in many developing countries, particularly the least developed among them.

39. Referring to the issue of the world conference on commodities, he said that the Asian Group supported the proposal, which could provide the opportunity for the crystalization of a concerted policy focus on commodities. Such a policy should deal with the relevance of the linkages between the commodity sector and the stability of the world economy as a whole, and not only with issues relating to market and income instability.

40. Finally, he expressed the hope that the Committee would bring about more action-oriented consensus and greater international co-operation in commodities, an area vital to the livelihood of millions of people in Asia and the world.

41. The representative of the **United States of America** expressed the hope that the work of the Committee would build on the basic principles that had been established in Cartagena. In this light, UNCTAD's members should move away from governmental intervention on international commodity markets and endorse and support market solutions to commodity problems. He considered document TD/B/CN.1/10 was a contribution to the improvement of the functioning of commodity markets and offered an approach which could help in considering how to resolve financial problems that many primary commodity producers face. He favoured solutions that incorporated and recognized the role of the market place and learned from the national experiences of countries in trying to solve their particular commodity problems. It was his belief that UNCTAD should emphasize national rather than international approaches to commodity problems, and that account should be

taken of the advantages of market- oriented programmes. There was a need to increase market transparency and concentrate on research analysis and the gathering of statistics, since more information was needed about how financial markets could assist developing countries. Finally, he stressed that there was also a need to explore the various mechanisms for risk management, especially futures and options.

42. The representative of **Norway** stressed that commodity problems were an integral part of the overall development process together with aspects such as debt servicing, structural reforms, investment and financial resources, technology transfer and market access. Increasing supply in times of falling prices could not always be considered as a lack of producers' responsiveness to market changes. If they had no real alternatives, raising supply might very well be a rational response. The potential for higher demand for commodities might arise from economic growth in developing countries and economies in transition. He further emphasized the importance of improved market transparency for achieving balanced growth and reducing distortions in commodity markets if market forces were to play a more important role in stabilizing these markets. Technical and financial assistance to encourage the use of risk management instruments by developing countries would be useful. Further study would also be required in this area.

43. Regarding diversification, he expressed his satisfaction that national experiences had become the main focus of the secretariat's studies and was looking forward to further analyses with more emphasis on successful experiences. Any diversification strategy needed to define the respective roles of the public and the private sector. Governments would do their best to limit their involvement to shaping macroeconomic policy and providing an incentive structure for diversification efforts at the sectoral level. The poorest countries would undoubtedly need considerable external assistance in their diversification efforts.

44. He welcomed the prominent role that had been allocated to issues related to sustainable development and the environment. Although all concepts of sustainable development were country-specific, commodity-related environmental damage was often due to market failures and policy distortions, exacerbated by the persistence of poverty. Policy reforms designed to promote efficiency or reduce poverty would therefore also be beneficial for the environment. The environmental problems of the poorest countries could, however, hardly be solved without technical and financial assistance from the international community. He considered the problem that environmental externalities were not incorporated in the prices of commodities to be a highly important issue because prices did not reflect real social costs,

and he was looking forward to receiving the secretariat's conceptual study on this issue shortly.

45. The representative of **China** said that since the start of the 1990s, commodity-exporting countries, especially those which were heavily dependent on commodity-export earnings, had faced serious economic difficulties. World commodity prices had continued to be unstable and at low levels. Not only real commodity prices, as measured against those of manufactured goods, had been falling, but nominal prices had also declined.

46. There were many factors contributing to the current weak conditions in the commodity market. These factors included cyclical fluctuations, structural and technological changes, government trade policies and instability of financial and money markets. With regard to trade policies, tariff and non-tariff barriers, especially with regard to duties at the lower end of the scale, and measures adopted to protect agricultural and other primary products, and large export subsidies, had increasingly hindered developing-country exports. The Uruguay Round dealt with a number of commodity problems. However, the cutback in tariff and non-tariff barriers on commodities of major exporting interest to developing countries had fallen short of the objective. He urged that commodity problems of developing countries be more favourably treated in the further consideration of the Uruguay Round. He also mentioned the problem of food exports of developing countries, specially the least developed countries, and the distortion to food trade resulting from heavy budgetary support and subsidies provided by developed countries to their food production and exports.

47. Developing countries faced immense tasks in their commodity sectors, including the restructuring of their production to diversify their exports and foreign-exchange earnings and the strengthening of their export competitiveness in order to enable them to use their natural resources beneficially. They deserved the support of the international community in these tasks. UNCTAD had made significant contributions to the normal development of the world commodity market, especially in assisting developing countries in strengthening their commodity production and exports and improving market access conditions. China hoped that this session of the Committee would further strengthen UNCTAD's efforts to improve the world commodity market.

48. The representative of **Nepal** recalled that Nepal was a least developed and small landlocked country whose foreign trade was heavily dependent on the export

of commodities. Its foreign trade sector was characterized by a large trade account deficit with imports of goods - such as petroleum products, chemical fertilizers, steel raw materials - rising fast, while exports of traditional goods, and in particular agro-based products, were declining. With a view to improving the performance of the State sector and enhancing its earning capacity, his country only had recently adopted a new trade policy which was open, liberal and market oriented. Referring to his country's trade policy in commodities, he noted that it was part of their overall economy development plan, under which they have liberalized trade policies and made open their internal markets.

49. His delegation hoped to see included in the framework of the Committee the development of international mechanisms in favour of least developed countries, which were facing every year commodity export earnings shortfalls. In view of the fact that one of the agenda items was dealing with compensatory financing mechanisms, his delegation urged the Committee to strengthen such mechanisms and the secretariat to undertake studies in favour of countries that were faced by commodity earnings shortfalls. The discussions of the Committee should include the issue of whether compensatory financing mechanisms could strengthen and contribute to the application of the Lomé Convention.

50. The representative of **Nigeria** said that Africa's dependence on international commodity trade was adversely affecting that region's export earnings given, in particular, the highly inelastic supply of primary products and the price instability in international markets. This situation was having a devastating impact on the economies of many countries: coupled with the global recession, it had virtually halted the development and growth of Africa's exports of primary commodities. Nigeria attached great importance to commodities, which was why the Government had embarked on the diversification for its economic base and the promotion of the non-oil sector for exports. He called upon the industrialized countries to match action with words by opening their markets to processed and semi-processed products from the developing countries. Account should be taken of the fact that increased supply in some commodities was the result of the need for developing countries to reduce their debts and debt services which the World Bank estimated at well over 50 per cent of export receipts in many african countries.

51. Referring to the secretariat's survey of the world commodity situation, he noted that in the particular case of tropical beverages, ground nuts, cocoa, and palm oil, which were of special export interest to his country, prices had remained low and had even fallen. His delegation believed in the integrated approach to

dealing with commodity issues and the inherent philosophy contained in the integrated co-operation between producers and consumers. In the case of commodities requiring development measures, whether in isolation or together with pricing provisions, efforts should be made to draw up and negotiate wide-ranging programmes, which would be formulated and operated in such a way as to take full advantage of all the facilities available to financing projects and programmes under them.

52. Turning to the issue of the Uruguay Round, he recalled that, while developed countries would benefit by up to as much as $140 billion as a result of the outcome of the Uruguay Round, Africa might lose $2.6 billion per year. The reality for African countries, and especially Nigeria, was that they were caught in an economic freeze with little or nothing to gain, with the implications that African countries weakened by recession, foreign debt and structural adjustment programmes, would be unable to benefit from the Uruguay Round of trade liberalization.

53. Finally, he appealed to the developed countries to give the African commodity problems the attention they deserved. Nigeria had set a high premium on the well-deserved technical assistance from developed countries and UNCTAD in processing, marketing, distribution, transportation and other relevant areas.

54. The representative of the **Russian Federation** stressed the positive role of UNCTAD in contributing to international cooperation in the commodity area as well as the need for the international community to elaborate new mechanisms for solving commodity problems. New approaches were required, in particular in respect of the functioning of the Common Fund and the international commodity agreements.

55. Multilateral cooperation and respect for mutual interests of both commodity producers and exporters could contribute to the solution of commodity problems. The regulation of production should be linked to improved access to markets of developed countries for products originating from developing countries and countries in transition. The creation within the framework of the new International Cocoa Agreement of production and consumption policies committees was a step in the right direction.

56. The problem of access to markets was closely linked to the problem of market transparency, which was a very important issue for the Russian Federation in respect of both Russian export markets and markets that were traditional or potential suppliers of Russian imports. Lack of market information, in particular

in respect of commodity markets of developing countries, was hampering an increasing number of relatively new and less experienced participants in international trade from countries in transition.

57. The use of market mechanisms coupled with efficient multilateral regulation of production and consumption was one of the most promising approaches to the solution of commodity problems. At the same time, governments should take into account different social problems related to regulation of production, especially the need to maintain employment and social stability.

58. The Russian Federation supported the idea of providing technical assistance to developing countries and countries in transition in the area of the use of commodity-related financial instruments and mechanisms of price and risk regulation. Representatives of these countries could also benefit from regular seminars, which could be organized in this area under the auspices of UNCTAD.

59. The representative of the **United Nations Food and Agriculture Organization** (FAO) addressed the issues arising in fostering sustainable development in the commodity field in view of the emerging interface between FAO and UNCTAD in this area. He also informed the Standing Committee of FAO's approach, as determined by its governing bodies, to the undertaking of commodity studies, including technical environmental review; economic assessment of the costs of reducing environmental damage and of adopting sustainable agricultural and environmental policies; and the national and international support needed to adopt such policies. With reference to document TD/B/CN.1/15 on this subject, he noted that the conclusions were intended to be preliminary as they derived from only a small number of country/commodity case studies which were not necessarily representative of the globality of commodity production systems. In particular, he questioned certain of the conclusions regarding cessation of trade in agrochemicals banned in the developed countries and pointed out the problems relating to control of process and production methods if effected by trade restrictions. He also pointed out that the links drawn between the level of commodity prices and the degree of environmental damage was far from clear as outcomes depended *inter alia* on across-commodity effects of responses to price changes. Agreeing that the issues were complex, he concluded by renewing FAO's offer to collaborate with UNCTAD in this important area of work.

Chapter I

SITUATION AND PROSPECTS FOR COMMODITIES

Identification and analysis of factors affecting commodity markets with a view, inter alia, to reducing distortions

(Agenda item 3)

60. For its consideration of this item, the Standing Committee had before it the following documentation:

"Identification and analysis of factors affecting commodity markets with a view, inter alia, to reducing distortions" - report by the UNCTAD secretariat (TD/B/CN.1/13).

Chapter II

CONTRIBUTION TO THE IMPROVEMENT OF THE FUNCTIONING OF COMMODITY MARKETS

Analysis of ways of improving the efficiency and use of existing mechanisms for the management of risks arising from commodity price fluctuations

(Agenda item 4)

61. For its consideration of this item, the Standing Committee had before it the following documentation:

"Analysis of ways of improving the efficiency and use of existing mechanisms for the management of risks arising from commodity price fluctuations" - report by the UNCTAD secretariat (TD/B/CN.1/10)

Idem - Proposals of the Group of Experts on Commodity Exchanges (TD/B/CN.1/10/Add.1).

In addition, the following background documents were available to the Standing Committee:

"Survey of commodity risk management instruments" (UNCTAD/COM/15)

"Technical and regulatory conditions influencing participation in, and usage of, commodity exchanges by both buyers and sellers of commodities" (UNCTAD/COM/16).

Chapter III

COMPENSATORY FINANCING MECHANISMS

Analysis of problems stemming from commodity-related export earnings shortfalls of developing countries and review of developments in the field of compensatory financing of export earnings shortfalls

(Agenda item 5)

62. For its consideration of this item, the Standing Committee had before it the following documentation:

"Review of developments in the field of compensatory financing of export earnings shortfalls" - report by the UNCTAD secretariat (TD/B/CN.1/11 and Add.1).

Chapter IV

REDUCING EXCESSIVE DEPENDENCE ON PRIMARY COMMODITIES

Analysis of national experiences in horizontal and vertical diversification, including the possibilities for crop substitution

(Agenda item 6)

63. For its consideration of this item, the Standing Committee had before it the following documentation:

"Analysis of national experiences in horizontal and vertical diversification, including the possibilities for crop substitution" - report by the UNCTAD secretariat (TD/B/CN.1/14).

Chapter V

FOSTERING SUSTAINABLE DEVELOPMENT IN THE COMMODITY FIELD

Analysis of national experiences in the management of natural resources with regard to commodity production

(Agenda item 7)

64. For its consideration of this item, the Standing Committee had before it the following documentation:

"Experiences concerning environmental effects of commodity production and processing: synthesis of case studies on cocoa, coffee and rice" - report by the UNCTAD secretariat (TD/B/CN.1/15 and Corr.1)

"Mineral resources and sustainable development" - report by the UNCTAD secretariat (TD/B/CN.1/16).

Chapter VI

TECHNICAL COOPERATION IN THE FIELD OF COMMODITIES

Identification for consideration of areas in which technical cooperation should be strengthened

(Agenda item 8)

65. For its consideration of this item, the Standing Committee had before it the following documentation:

"Identification of areas in which technical cooperation should be strengthened" - report by the UNCTAD secretariat (TD/B/CN.1/12)

Chapter VII

REPORTS OF THE SUBSIDIARY ORGANS OF THE STANDING COMMITTEE

(Agenda item 9)

66. Under this agenda item, the Standing Committee had before it the following reports of its subsidiary bodies:

- Report of the Intergovernmental Group of Experts on Iron Ore on its first session (26-28 October 1992) (TD/B/CN.1/5 - TD/B/CN.1/IRON ORE/5)

- Report of the Intergovernmental Group of Experts on Tungsten on its first session (7-11 December 1992) (TD/B/CN.1/7 - TD/B/CN.1/TUNGSTEN/5)

- Report of the Second Ad Hoc Review Meeting on Bauxite (29-30 April 1993) (TD/B/CN.1/RM/BAUXITE/4).

Chapter VIII

ORGANIZATIONAL MATTERS

A. Opening of the session

67. The second session of the Standing Committee on Commodities was opened on 31 January 1994 by Mr. D.E. Sams (United States of America), one of the Vice-Chairmen of the Standing Committee at its first session.

B. Election of officers

(Agenda item 1)

68. At its 6th (opening) plenary meeting, on 31 January 1994, the Standing Committee on Commodities elected its officers as follows:

Chairman:	Mr. R. Melendez	(Colombia)
Vice-Chairmen:	Ms. T. Feroukhi	(Algeria)
	Mr. J.-L. Perez Gabilondo	(Argentina)
	Mr. S. Jamaluddin	(Bangladesh)
	Ms. J. Wright	(United Kingdom of Great Britain and Northern Ireland)
	Mr. D.E. Sams	(United States of America)
Rapporteur:	Mr. V. Skliarov	(Russian Federation)

C. Adoption of the agenda and organization of work

(Agenda item 2)

69. At the same meeting, the Standing Committee adopted the provisional agenda circulated in TD/B/CN.1/9 and Add.1. The agenda for the second session therefore read as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Situation and prospects for commodities

   Identification and analysis of factors affecting commodity markets with a view, inter alia, to reducing distortions

4. Contribution to the improvement of the functioning of commodity markets

   Analysis of ways of improving the efficiency and use of existing mechanisms for the management of risks arising from commodity price fluctuations

5. Compensatory financing mechanisms

   Analysis of problems stemming from commodity-related export earnings shortfalls of developing countries and review of developments in the field of compensatory financing of export earnings shortfalls

6. Reducing excessive dependence on primary commodities

   Analysis of national experiences in horizontal and vertical diversification, including the possibilities for crop substitution

7. Fostering sustainable development in the commodity field

   Analysis of national experiences in the management of natural resources with regard to commodity production

8. Technical cooperation in the field of commodities

   Identification for consideration of areas in which technical cooperation should be strengthened

9. Reports of the subsidiary organs of the Standing Committee

10. Provisional agenda for the third session of the Standing Committee

11. Other business

12. Adoption of the report of the Standing Committee to the Trade and Development Board.

D. Provisional agenda for the third session of the Standing Committee

(Agenda item 10)

[To be completed]

E. Adoption of the report of the Standing Committee to the Trade and Development Board

(Agenda item 12)

[To be completed]

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TRADE AND DEVELOPMENT BOARD
Standing Committee on Commodities
Second session
Geneva, 31 January 1994
Agenda items 3, 4, 5, 6, 7 and 8

Draft agreed conclusions

1. After reviewing developments in the international commodity economy, the Committee noted that the difficulties faced by commodity exporters in general, and more especially by developing countries and the least developed countries which are heavily dependent on commodity export earnings, continue unabated. Developing countries, especially those dependent on commodities, suffered significant setbacks in the 1980s resulting mainly from very depressed commodity prices. In the 1990s, prices have continued to fall in real terms for most commodities and in nominal terms for many. For a large number of commodities, export values have not expanded significantly. As a result, many developing countries continue to experience large shortfalls in their commodity export earnings, in a context in which only very limited success has been achieved in efforts at economic diversification.

2. The Committee further observed that in many commodities basic problems underlying depressed prices are,among others, lack of market access, demand recession and the existence of structural oversupply leading to large stock overhangs. The latter stems from increased productivity in certain countries, the entry of new and efficient producers, pressure to increase exports resulting from structural adjustment programmes and foreign debt service, expansion of metal exports from Eastern Europe, and, in the case of agricultural commodities, high levels of producers' support in developed countries.

3. The Committee welcomed the successful conclusion of the Uruguay Round, and considered it as the basis to enhance multilateral trade disciplines in the field of commodities, while taking into account the special circumstances of the least developed countries.

4. The Committee recognized that commodity markets are subject to significant distortions that prevent their functioning as optimal allocators of resources. Such distortions may come from market imperfections, notably imperfect information, barriers to entry and to exit; from inappropriate interventions in commodity markets; from externalities, notably environmental; and from difficulties in securing market access.

5. The Committee noted that existing mechanisms to tackle commodity problems have proved inadequate. On the other hand, the Committee also noted with satisfaction that there have been positive developments in the field of producer and consumer co-operation. It noted in particular, the successful negotiation in UNCTAD of new international agreements on sugar and cocoa; the conclusion of the negotiation on tropical timber; the extension and adoption of a protocol amending the international agreement on olive oil and table olives; and the agreement establishing the International Copper Study Group. It further noted that preparations are well under way for the Conference to renegotiate the International Natural Rubber Agreement. The Committee noted with interest the efforts at international cooperation for supply rationalization, particularly in situations of structural over-supply; and recognized that such rationalization may take a number of forms, including intergovernmental exchanges of information. The participation of both producers and consumers in efforts at introducing a production policy within the International Cocoa Agreement was welcomed.

6. The Committee noted that the existence of futures markets helped to increase the transparency of markets and expressed its appreciation for both the work done by the Group of Experts on Commodity Exchanges pursuant to paragraph 213 of the Cartagena Commitment, as reported in the two documents presented to the Committee, and for the presentations and clarifications of those Experts present in the informal session. It observed that, when appropriate, developing countries and countries in transition either individually or regionally could benefit from exploring the possibilities for establishing commodity futures markets or for using existing exchanges.

7. The Committee noted the difficulties being experienced by existing compensatory financing facilities, which to a large degree were the result of their having to cope with problems they were not intended to solve at their establishment. In this connection, the Committee observed that such facilities were designed to provide short-term assistance for temporary, reversible shortfalls and not to cope with structural changes as indicated by sustained declines in export earnings; and that distinguishing whether shortfalls were cyclical or structural was difficult. The Committee noted, therefore, that compensatory financing facilities should be viewed as but one (short-term) instrument in a range of measures spanning different time horizons.

8. The Committee observed that several conditions were necessary for the success of horizontal or vertical diversification, among which were: (i) appropriate national policies, particularly as regards the macroeconomic framework, government services and measures to encourage and facilitate active private sector initiatives; (ii) liberalised market access, including reduction of tariff escalation; (iii) financial and technical support from the international community; and (iv) overcoming and removing barriers to exit.

9. The Committee noted with great concern UNCTAD's growing difficulties in securing sufficient financial resources to discharge its technical assistance responsibilities as a result of the dramatic decline of UNDP funding, which was only partly compensated by contributions made by donor governments, to which the Committee expressed its recognition.

10. The Committee agreed that the problems of the international commodity economy should be addressed in the context of market-oriented approaches, with a view to achieving a better functioning and enhanced transparency of the international commodity economy, greater diversification of the commodity sector in developing countries and better management of natural resources in order to achieve sustainable development.

11. The Committee ascertained that a substantial degree of consensus has emerged around the preceding points, but that further research and policy analysis as well as intergovernmental interaction for consensus-building are required in order to achieve greater policy specificity and concreteness.

12. The Committee agreed that the removal of commodity-market distortions calls for sound, compatible and coherent market-oriented policies, particularly at the national and international levels; for economic and policy instruments recognizing the specificity of commodity and country situations; and for a strengthening of producer/consumer cooperation. In particular, areas in which concerted action might be necessary include information and market transparency; improving market mechanisms for risk management and facilitating and supporting participation of developing countries in them; support for diversification at national and international levels; support for sustainable development, including the environmentally sound management of natural resources; and strengthened technical cooperation efforts covering all of the above.

13. The Committee agreed that governments and those operating in commodity markets, especially in developing countries and countries in transition, needed to become more aware of the potential uses of market-based risk management instruments and of the risks associated with their use. To enhance such awareness, the Committee:

(i) endorsed the proposals of the Group of Experts concerning policy, areas requiring further investigation and training/advice/information, contained in document TD/B/CN.1/10/Add.1; and taking due account of the overall resources of UNCTAD, it urged UNCTAD and the World Bank to continue and intensify their efforts on training/advice/information, avoiding duplication and cooperating closely with other United Nations entities, relevant international organisations and agencies, and the private sector;

(ii) requested the Secretary-General of UNCTAD to forward the relevant policy proposals of the Group of Experts to the responsible authorities within member countries; and

(iii) agreed that, given the highly technical nature of this work, it should be pursued within existing resources through an Ad Hoc Group of Experts which should meet once but at the latest before the fourth session of the Committee. It was also agreed that member governments encourage their public and private sectors to participate in the work of this Group.

14. The Committee agreed to continue to review developments in compensatory

financing facilities and to analyze further the problems stemming from commodity-related export earnings shortfalls of developing countries, particularly the least developed countries.

15. The Committee agreed to pursue its examination of diversification by focusing on:

(i) analysis of national experiences, notably examples of successful horizontal and vertical diversification and of the problems involved in crop substitution;

(ii) analysis of the implications of the results of the Uruguay Round on diversification prospects for developing countries;

(iii) examination of the need for financial and technical assistance to developing countries, particularly the least developed countries, in achieving diversification; and

(iv) analysis of the role of barriers to exit in impeding diversification among private sector commodity producers.

16. The Committee attached particular importance to the issue of fostering sustainable development in the commodity field and agreed that the following required special attention in this respect:

(i) examination of national experiences in terms of environmental impacts of commodity production, in particular the determinants of these impacts and their relationship with economic policies and market conditions, and the facilitation of exchange of experiences in this regard;

(ii) collection and dissemination of information regarding natural products claimed to have environmental advantages, with a view to expanding the utilization of, and international trade in, such products;

(iii) analysis of the economic implications of the internalization of environmental externalities with respect to commodities and study of possible support mechanisms for such internalization, in particular

at the international level, taking into account logistical aspects concerning the transportation of commodities;

(iv) inclusion of environmental objectives in international commodity bodies and provision of information to the Standing Committee on this issue; and

(v) policies for the sustainable development of mineral-dependent economies, including policies for the sound macroeconomic management of these economies, and for the establishment in all countries concerned of an adequate legal, fiscal and regulatory framework for the management of mineral resources. Assistance would be required for the success of such policies.

The Committee noted that an international conference on development, environment and mining would be held in June 1994; it welcomed the participation by UNCTAD in the organization of the conference and requested the secretariat to prepare a report on the conference for submission to the third session of the Committee.

17. The Committee recognized the importance of past and on-going technical co-operation activities of the secretariat in the field of commodities and recommended that the technical cooperation activities of the secretariat in the field of commodities be continued and strengthened. To this effect, the Committee:

(i) called for new initiatives to identify additional sources of financial and technical support for UNCTAD-executed commodities programmes, as identified in paragraph 44 of document TD/B/CN.1/12;

(ii) called for increased voluntary contributions to UNCTAD's technical cooperation projects in the field of commodities;

(iii) recommended that particular attention be given to avoiding duplication with other United Nations entities, relevant international organizations and agencies, to ensuring the efficiency and continuity of a project as well as the transparency of its budget and to consolidating the concept of "burden-sharing";

(iv) called for the allocation of technical assistance resources for

alleviating the commodity problems faced by the developing countries, particularly the least developed among them;

(v) supported the initiative of the secretariat to undertake a comprehensive survey of technical co-operation needs of member States in the commodities field, and to report thereon at the third session of the Standing Committee, as proposed in paragraph 45 of document TD/B/CN.1/12.

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Agenda item 10

PROVISIONAL AGENDA FOR THE THIRD SESSION OF THE STANDING COMMITTEE

Draft provisional agenda

1. Election of officers

2. Adoption of the agenda and organization of work

3. Analysis of ways and means to improve market opportunities for commodities in the medium term, with emphasis on examination of the best ways of achieving diversification, taking into account competitiveness, market trends and opportunities

4. Identification of means by which the competitiveness of natural products with environmental advantages could be improved *

5. Reports of the subsidiary organs of the Standing Committee

6. Provisional agenda for the fourth session of the Standing Committee

7. Other business

8. Adoption of the report of the Standing Committee to the Trade and Development Board

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* It was agreed to avoid duplication of efforts.

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